

**Audit Results from
CAFR and Single Audit Procedures**

Department of Health

**For the Year Ended
June 30, 2003**

**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**

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**Department of Health
For the Year Ended June 30, 2003**

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary	1
Transmittal Letter	2
Results of Procedures	3
Findings and Recommendations	5
Status of Prior Audit Findings	11

**Department of Health
For the Year Ended June 30, 2003**

EXECUTIVE SUMMARY

Findings

- FINDING 1 Monitoring of subrecipients' audit reports is not adequate. The department has not taken the necessary measures to ensure that subrecipients' required audit reports are received no later than nine months following their fiscal year end.
- FINDING 2 The department did not account for the disposition of all Food Instruments within the period required by federal regulations. Specifically, the department failed to purge unredeemed food vouchers for the year ended June 30, 2003.
- FINDING 3 The department did not inform subrecipients of all CFDA numbers, program names, and amounts of federal funds awarded. The department has not informed subrecipients through the contracts of all federal information. This finding is repeated from the prior year.
- FINDING 4 One WIC clinic did not maintain the required documentation for participants, and therefore eligibility could not be substantiated. The clinic failed to maintain the Informed Consent forms for two participants to document the participants' program certification or recertification date.

This report addresses reportable conditions in internal control and noncompliance issues found at the Department of Health during our annual audit of the state's financial statements and major federal programs. The scope of our audit procedures at the Department of Health was limited. During the audit for the year ended June 30, 2003, our work at the Department of Health focused on one major federal program: Special Supplemental Nutrition Program for Women, Infants, and Children. We audited this federally funded program to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the program to ensure compliance. Management's response is included following each finding.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

March 9, 2004

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Kenneth S. Robinson, Commissioner
Department of Health
Cordell Hull Building, 426 Fifth Avenue North
Nashville, Tennessee 37247

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Health as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2003, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in certain findings which are detailed in the Findings and Recommendations section.

Sincerely,

John G. Morgan
Comptroller of the Treasury

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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December 15, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Health as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2003. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Health.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies the State of Tennessee's major federal program administered by the Department of Health. We performed certain audit procedures on this program as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to each of its major federal programs.

**Major Federal Program Administered by the
Department of Health
For the Year Ended June 30, 2003
(in thousands)**

CFDA Number	Program Name	Federal Disbursements
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$89,627

Source: State of Tennessee's Schedule of Federal Financial Assistance for the year ended June 30, 2003.

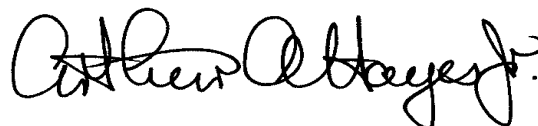
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have issued an unqualified opinion, dated December 15, 2003, on the State of Tennessee's financial statements for the year ended June 30, 2003. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified certain internal control and/or compliance issues related to the major federal program at the Department of Health. Those issues, along with management's response, are described immediately following this letter. We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Health's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,



Arthur A. Hayes, Jr., CPA,
Director

FINDINGS AND RECOMMENDATIONS

1. Monitoring of subrecipients' audit reports is not adequate

Finding

The Department of Health has not adequately monitored subrecipients' audit reports. This same problem was noted in nine consecutive audit reports from 1992 through 2000. The department had taken corrective action, and the finding was not repeated in 2001 and 2002. However, attention to the monitoring function has again become lax. Testwork for the year ended June 30, 2003, revealed the following deficiencies:

- In response to prior findings, management had developed draft procedures governing subrecipient audit reports but has failed to finalize and follow these draft procedures.
- The Office of Internal Audit did not send "Audit Report Request" letters to subrecipients for audits performed for the year ended June 30, 2002, until June 2, 2003, two months after the audit reports were due. The department's draft procedures indicate that the request letter should be sent six months after the end of a subrecipient's fiscal year.
- Based on interviews with internal audit staff, findings and questioned costs contained in audit reports received were not forwarded to the applicable program personnel, so that management decisions, if necessary, could be made. In addition, amounts noted as "Due to Grantor" in audit reports were not forwarded to the appropriate fiscal personnel so that collections of amounts due to the department could be made.

Testwork on 25 subrecipients' audit reports selected for testing that were subject to the Office of Management and Budget (OMB) Circular A-133 reporting standards revealed the following deficiencies:

- Fourteen audit reports (56%) were not received within the nine-month deadline. Seven of the 14 reports were not submitted at all, and the remaining 7 reports were submitted late. The late reports were received from one to 133 days late and averaged 102 days late.
- One audit report (4%) did not include the required Schedule of Findings and Questioned Costs.

OMB Circular A-133 states that it is the pass-through entity's (Department of Health's) responsibility to "issue a management decision on audit findings within six months of receipt of

the subrecipient's audit report." The circular requires that the management decision "shall clearly state whether or not the audit finding is sustained, the reasons for the decision, . . . any appeal process," and the audit finding reference numbers. The management decision shall also include "the expected auditee action to repay disallowed costs." Furthermore, the circular requires that "in cases of continued inability or unwillingness to have an audit conducted in accordance with this part, . . . pass-through entities shall take appropriate action using sanctions such as . . . withholding a percentage of Federal awards until the audit is completed satisfactorily" or "suspending Federal awards until the audit is conducted." The circular also states that the audit report should be submitted within nine months after the end of the audit period, and that "the auditor's report(s) shall . . . include . . . a schedule of findings and questioned costs."

Recommendation

The department should take all necessary measures to try to ensure that subrecipients' required audit reports are received no later than nine months following their fiscal year end. The reports should be reviewed for completeness, and the management decisions on audit findings should be issued as required by OMB Circular A-133.

Specifically, the Commissioner should ensure that draft policies are finalized; that appropriate staff comply with the policies, including sending letters and forwarding findings and questioned costs to program staff; that program and fiscal staff follow up with subrecipients regarding findings and questioned costs; and that the department has an adequate tracking system to identify any slowdown in the process.

The Commissioner should consider appropriate action using such sanctions as withholding a percentage of funding from any subrecipient when the required audit is not conducted or the audit report is not submitted to the department timely.

Management's Comment

We concur. The Division of Internal Audit has already developed and instituted measures to correct this finding. Letters to all subrecipients requesting audit reports have been sent for the current fiscal year. A tracking of letters sent and responses received will be maintained and follow-up requests will be made in a timely manner as necessary. Once the audit reports are received, the Division will review and forward any findings noted to the responsible Health Department division for further action. Internal Audit will request that the responsible Health Department division require corrective action plans from the subrecipients.

2. The department did not account for the disposition of all Food Instruments within the period required by federal regulations

Finding

The department did not account for the disposition of all Food Instruments (FIs) within 150 days as required by federal regulations governing the reconciliation of FIs for the Women, Infants, and Children (WIC) program. The *Code of Federal Regulations* (CFR), Title 7, Part 246, Section 2, defines “Food Instrument” as “. . . a voucher, check, electronic benefits transfer card (EBT), coupon or other document which is used by a participant to obtain supplemental foods.” Title 7 CFR 246.12(q) also requires the department “to account for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed.” In addition, the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for the WIC program states,

A State agency must account for the disposition of all FIs within 150 days of the FI’s first valid date for participant use. The State agency must identify all FIs as either issued or voided; and identify issued FIs as either redeemed or unredeemed. Redeemed FIs must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records.

The department reconciles the disposition of FIs using the WIC Voucher Reconciliation report that identifies the issuance of FIs. Based on interviews with the department’s Data Project Consultant in charge of the FI reconciliation, and a review of the activity in the WIC Voucher Reconciliation for the year ended June 30, 2003, the department failed to promptly purge expired unredeemed vouchers from the Patient Tracking Billing Management Information System. The Data Project Consultant maintains an informal checklist during the reconciliation process that prompts her to purge unredeemed vouchers quarterly; however, this was not done for any quarter for the year ended June 30, 2003.

By not reconciling and accounting for all FIs within the required time limit, an individual may present the voucher for WIC-approved items after the expiration date. Thus, if the department has not identified the vouchers as expired, it may incur costs associated with these vouchers.

Recommendation

The Director of the WIC program should ensure that FIs are fully reconciled within 150 days of the first valid date for participant use and ensure that the Data Project Consultant fully documents compliance with the federal WIC requirements through the “WIC Voucher Reconciliation.” The Director should investigate any unreconciled expired unredeemed vouchers to ensure they were not used after the expiration date.

Management's Comment

We concur. Even though the program was reconciling food instruments in accordance with the federal regulations, unredeemed food instruments were not voided timely. Action has already been taken to void any aged unredeemed food instruments.

3. The department did not inform subrecipients of all CFDA numbers, program names, and amounts of federal funds awarded

Finding

As noted in the prior audit report, the Department of Health has not informed subrecipients of all *Catalog of Federal Domestic Assistance* (CFDA) Numbers and federal program names. Management concurred with the prior finding and stated that it would ensure that all recipients were furnished with the applicable CFDA numbers and program names. However, management stated in the current audit that rather than modify existing contracts, no action was planned until new contracts with subrecipients were initiated beginning in January 2004.

The department has entered into contracts with a nonprofit organization, community services agencies (CSAs), human resource agencies (HRAs), and counties to assist in implementing different state and federal grant programs. When these entities invoice the department, the department pays and accounts for expenditures in a clearing account, which is reallocated to all of the different programs provided at the appropriate county health department. Once the reallocation is performed, appropriate federal funds are drawn to cover these expenditures. The department reallocates and draws down grant money from multiple federal programs. However, the department has informed these subrecipients of only one CFDA number and program name, which is mentioned in the grant contracts. Therefore, the local agencies are not aware of the sources of their funding.

Office of Management and Budget (OMB) Circular A-133, Section 400 (d)(1), states that the pass-through entity is responsible for identifying all "federal awards made by informing each subrecipient of CFDA title and number."

In addition, current year testwork revealed that the department does not inform subrecipients of the amount of federal funds the entities will receive. Although the subrecipients' contracts provide a total award amount, the contract does not specify the percentage of federal funds the subrecipients will receive. As a result, the subrecipients cannot properly report expenditures on their Schedule of Expenditures of Federal Awards and may not be able to determine whether an audit in accordance with OMB Circular A-133 is required. Also, without specific information as to the federal funds received, subrecipients cannot establish that federal funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

The *Code of Federal Regulations*, Title 45, Part 92, Section 20(b)(2), states “grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.”

Recommendation

The Fiscal Services Director should take steps to ensure that subrecipients are timely informed of all required federal information, including CFDA numbers, program names, and the federal financial assistance associated with each program.

Management’s Comment

We concur. The department has already added the CFDA numbers and program names through an attachment to some of the WIC contracts that became effective October 1, 2003. The other WIC contracts will be amended to include a similar attachment. Since the WIC contracts are specifically intended to cover WIC services, it is anticipated that no other federal funds will be used to fund those contractual expenditures. However, if it is determined at a later date that federal funds, other than WIC, will be used to fund contractual expenditures, the contractors will be notified of the federal grant being used and the amount.

4. One WIC clinic did not maintain the required documentation for participants, and therefore eligibility could not be substantiated

Finding

Because one Women, Infants, and Children (WIC) clinic did not maintain Informed Consent Forms, which are used to document participants’ eligibility during certification/recertification for the WIC program, it was not possible to determine if the participants were eligible for the program.

According to the *Code of Federal Regulations*, Title 7, Part 246, Section 7(i), “All certification data for each person certified shall be recorded on a form (or forms) which are provided by the State agency.” Furthermore, to comply with 7 CFR 246.7(i), the department uses the Informed Consent Form to document whether participants have been certified for nutrition risk. The form is also used to document other eligibility criteria such as residency and income and provides space for the applicant’s signature certifying the accuracy of information provided.

Testwork consisted of a review of 60 participants’ files selected from four clinics chosen at random from four counties with the highest WIC expenditures for the year ended June 30, 2003. The review revealed that two of the WIC participant files at one of the clinics tested (3%)

did not contain the Informed Consent Form for the certification or recertification date. While there was no documentation of the participants' WIC eligibility at the Department of Health, further testwork revealed that the two participants were Medicaid eligible, and therefore automatically eligible for WIC. Therefore, there are no questioned costs associated with this lack of documentation.

Without maintaining the documentation, the Department of Health cannot ensure that the WIC recipients are eligible at the time benefits are awarded.

Recommendation

The Commissioner should ensure that the proper procedures are followed in determining eligibility and documenting eligibility for WIC participants. In addition, the WIC Director should ensure that the WIC program staff, the Office of Program Accountability and Review, and internal audit adequately monitor all clinics to ensure that clinic staff is properly maintaining eligibility forms.

Management's Comment

We concur. The Metro Health Department Director and the WIC director, who have responsibility for the clinic where the deficiency was noted, have been notified of this problem and are working with the contracted agency to assure better documentation in the future. At a recent in-service, the importance of properly completing and maintaining eligibility documentation was stressed with regional WIC staff from across the state. The WIC Manual, Chapter 1, has been revised to provide a more focused assessment of eligibility.

STATUS OF PRIOR AUDIT FINDINGS

State of Tennessee *Single Audit Report* for the year ended June 30, 2002

An audit finding pertaining to the Department of Health was included in the *Single Audit Report*. The updated status of this finding as determined by our audit procedures is described below.

Repeated Audit Finding

The current audit disclosed that the Department of Health has not corrected the previous audit finding concerning informing subrecipients of CFDA numbers and program names. This finding will be repeated in the *Single Audit Report* for the year ended June 30, 2003.

Most Recent Financial and Compliance Audit

Audit report number 02/097 for the Department of Health, issued in April 2003, contained certain audit findings that were not included in the State of Tennessee *Single Audit Report*. These findings were not relevant to our current audit and, as a result, we did not pursue their status as a part of this audit.